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The Man Behind 'Half Off' Third-Party Software Maintenance

– Thomas Wailgum , CIO

April 11, 2008

Seth Ravin, president and CEO of third-party software maintenance provider Rimini Street, is a self-described entrepreneur. He's been that way his whole life. In the third grade, for instance, he was peddling packs of Bubble Yum bubblegum because it was a "rare commodity" at his school, he says.

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ng the conversation.

At 13, Ravin cofounded Real Computing, a computer consultancy that developed a word-processing alternative for the Tandy TRS-80, the illustrious microcomputer that Radio Shack sold in the late 1970s. "There was only one word processor out there, and it was expensive, like $200," he recalls. Real Computing's product sold for $50, taking dead aim at Radio Shack's product. "I went head to head with Radio Shack at several conventions," Ravin says.

Today, at 41, Ravin is still pushing a cut-rate business model and taking on the computer industry's establishment. But his target now isn't word-processing software; it's enterprise software maintenance.

He founded Rimini Street in 2005, and the pitch was simple: third-party maintenance and support services on enterprise software for half the cost of what a company would typically pay Oracle (which owns the Siebel, PeopleSoft and JD Edwards applications Rimini Street services).

Rimini Street is Ravin's second act in the third-party maintenance business. In 2002, Ravin and fellow PeopleSoft veteran Andrew Nelson cofounded TomorrowNow, which has the exact same business model as Rimini Street. In January 2005, however, Ravin and Nelson sold the company to SAP. Nelson

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stuck around SAP; Ravin lasted just three months there.

Seth Ravin, CEO of Rimini Street

Since then, TomorrowNow's (and SAP's) world has been rocked. An embarrassing lawsuit filed by Oracle in March 2007 alleged that TomorrowNow employees had "engaged in systematic, illegal access to—and taking from—Oracle's computerized customer support systems." (The suit is still pending.) Nelson resigned from TomorrowNow in November 2007, and SAP seems like it can't get rid of TomorrowNow fast enough, putting a "For Sale" sign on TomorrowNow's front lawn and finding no buyers thus far. (See "SAP's Purchase and Attempt to Sell Off TomorrowNow" for an in-depth account of the TomorrowNow saga.)

According to SAP's 2007 annual report, the TomorrowNow subsidiary had an operating loss of approximately $35 million in 2007.

Which leaves Rimini Street in the driver's seat. Ravin reports that Rimini Street has a steady stream of former TomorrowNow customers coming to his company. First quarter 2008 revenue, bookings and invoicing at Rimini Street have all increased more than 100 percent compared to the same quarter last year and more than 39 percent when compared to the fourth quarter of 2007. It now provides support services to more than 175 Fortune 500, midmarket and public-sector organizations using Oracle's Siebel, PeopleSoft and JD Edwards applications.

What's next for Ravin? Senior Editor Thomas Wailgum talked to Ravin about whether Rimini Street should buy TomorrowNow and if he was planning to go after SAP and offer third-party support for its products.

CIO: Have you had any negotiations with SAP about purchasing TomorrowNow?

Seth Ravin: I can't actually comment on that, but I can just tell you that, currently, we have no discussions ongoing. We looked at it starting in November, and we told you that we were going to take a good hard look. We looked at metrics from the outside, the numbers that are available through SAP's own financial disclosures, and other information available, just compiling the data.

We continued to expand our staff and to add a lot of different clients organically from Oracle. Adding into our growth is the migration of TomorrowNow customers as well, which is a secondary business for us that's been extremely brisk. What we see are not only the customers that are making the conversion— not only for stability reasons but because we're offering more value for the money and we're proving a step up in service from TomorrowNow. So they're getting more in the process too, so it's not just a straight across move for them.

Of course, all this eventually led us to reach the conclusion that there was no reason to pay for something that's going to come to us for free. Paying might speed that transaction, but the reality is that we think we can put that money to better use, servicing those clients, and in our own growth, rather than paying SAP for it. It's going to take a little longer to do it on a one-by-one basis versus a single transaction, but I think it's the right thing to do.

CIO: You said TomorrowNow customers will get a "step up in service" as compared to what they were getting before. What types of services are those?

Ravin: Our basic model for TomorrowNow customers is that you're going to get the same kind of savings. The important part is that most TomorrowNow customers have been pretty happy with the

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service, but it's more that they want a company that's really focused on the long term.

What we're offering is on top of what they're used to, which is the vanilla offering that I actually assembled—because it hasn't changed much from what I put together at TomorrowNow several years ago when we were launching the company. So what we provide is extended coverage beyond that, as part of what I built at Rimini Street.

Those things are support for customizations, which has never been offered by Oracle and has never been apart of TomorrowNow's package. And what that means is that most customers have 20 percent or more of customization in their software code, and they're left to fend for themselves on any of those issues because the vendor won't touch it, and TomorrowNow's model generally excludes it. Our model includes it and provides coverage for it at the same level of the rest of the software that's provided from the vendors.

That's a huge, huge improvement. You can probably find some Gartner or Forrester analysts who will tell you that's one of the top features that nobody else has ever offered because it requires a certain amount of risk because you are writing an insurance policy on code that has not been delivered from the vendor and that [Rimini Street] didn't write ourselves.

Other parts of that are interoperability coverage over time, as [customers] need to interface with other systems as they come along. And then data performance: as you gather more data in to your system, performance becomes an issue. Neither of those interoperability or performance [services] are considered a standard part of maintenance when it comes to Oracle or TomorrowNow. These items are considered special consulting engagements [charged] by the hour.

So we're redefining the boundaries of support and digging into what used to be consulting by the hour. We're now giving a whole new scope of services that customers used to have to pay for on top of maintenance. We're rolling it all into that 50 percent off of what Oracle charges.

CIO: After SAP announced that TomorrowNow was up for sale in November 2007, we were left to speculate about what TomorrowNow customers were thinking at the time. Can you tell me what customers who have migrated to Rimini Street from TomorrowNow were feeling then and in the interim?

Ravin: Across the board, I have not found a customer of TomorrowNow [who hasn't felt upset because] you don't tell customers who depend on you for mission-critical support, who assume that you're going to provide that support for years to come, via a press announcement that you're putting the company up for sale without talking to the customers.

That's not they way people expect SAP to conduct its business. When you're in charge of systems that are processing up to billions of dollars in transactions that you can't run without their support, the idea of waiting around to see what they're publishing next and what's going to come out in the media is just not a tenable solution for major organizations. Without any communication from SAP, they have no choice but to take action on their own to protect themselves. It was definitely a huge misstep on SAP's part.

CIO: In late November when we talked, you likened TomorrowNow and Rimini Street to "fiercely competitive cousins." How would you describe that relationship now?

Ravin: You can't take the facts away of the history because our histories have run together. There's no way to separate it. We look a lot alike in areas because I did both. It's like Las Vegas, when you go to the Bellagio and to the Wynn. Both of those are designed by Steve Wynn, whether he owns both of them today or not. You clearly see touches that are hallmarks of Steve Wynn.

The same is true in both services. I designed the TomorrowNow service. I evolved it and created a better service with Rimini Street. There's a lot of customers still at TomorrowNow that I brought on board.

You cannot take us 100 percent apart and say we have nothing to do with each other. Obviously, legally, we have nothing to do with each other or have contractual arrangements with each other.

There's a very different feel between the organizations now: they're an organization that is essentially slowly dying and we're growing rapidly. Those are the differences that you see in the marketplace. They're trying to hold onto customers, and we're trying to figure out how to add more and do it as fast as we can.

CIO: What does its saga mean to you and Rimini Street? Are there any lessons there?

Ravin: The Monday morning quarterbacking will always be there: Was the decision to sell to SAP, in my opinion, was it the right decision? From day one there were a lot of questions: Could a software company be in both the discount market and the full service market? Could you live in both worlds of charging customers full rates for your own service and discounts for other customers using your competitor's products? Could you justify that and actually exist in both worlds?

There's still a lot of questions, and these are questions that existed at the time. It was considered a very bold move by SAP. But it was a very different time at SAP: It was a time of building a much more confrontational approach to Oracle.

Now you see SAP going back to their much more quiet position. They are not normally a bellicose company, and not a Larry Ellison model of street fighting. They are returning to their former model. But TomorrowNow sticks out now as one of the few points left over of the aggressive push of 2005, and it doesn't fit into the model anymore.

We've added new investor groups and we intend to make [Rimini Street] much, much bigger rather than sell it off. That's probably the lesson learned from TomorrowNow, where people might think we sold too early.

CIO: Now that your "non-compete" agreement has expired with SAP, will you be offering third-party support for SAP products?

Ravin: I don't think we've made any secret of the fact that we've been eyeing the market.

We've had numerous, unsolicited calls from SAP customers looking for a Rimini Street solution for SAP's R/3 products that are coming up for retirement, who are having the exact same business issue. We've been on the phone talking to them in an exploratory mode, wanting to understand the customers and their business issues. We want to make sure that we could provide a product that would me their needs and would be valuable.

So far we've heard that the business issue matches exactly the same as we have with the Oracle customers. What they're running on was very expensive to put in place; what they're running on is working. A lot of them are manufacturers, and they don't like to tinker with systems they already have working.

They don't see the value proposition of moving forward to a new NetWeaver platform. The business case is not there to spend the kind of money that would be required for the upgrade. And the customers are starting to for alternatives.

This maintenance rate change [by SAP] was one more sign that SAP could no longer hold on to its old numbers. The push for margin, and that [SAP] couldn't ignore the fact that Oracle was getting 22 percent, and that they were leaving money on the table. It drove more SAP customers to call us. When this starts to hit—how [the maintenance fee increase] is implemented and how they apply it to customers—I think we'll create a firestorm of opportunity in the SAP world. There is building consensus on our side that an SAP offering should be looked at seriously.

CIO: Companies like Rimini Street give CIOs and businesses more options with maintenance and support to cut the prices in half. Software-as-a-service and on-demand applications are also providing a new and different software option for companies—

Ravin: But remember the one big difference in what we do. This is the single biggest difference between us and the SaaS solutions: We don't require any change to their systems and operations.

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Everything we do literally cuts cost off the equation. The rest of them you're talking about software changes, you're talking about everything [customers] don't want to do.

If you just want the status quo—everything is working great—and all you want to do is cut costs, we're the people who can deliver that. You talk to Workday [an on-demand ERP provider, started by PeopleSoft founder Dave Duffield], and Workday [execs] say, "All that stuff is antiquated and should be thrown out." Well, that's great, but [a company] just spent a $100 million putting it in. They're still writing it off.

CIO: So It seems like you do consider companies like Workday and other SaaS and on-demand providers your competitors?

Ravin: Sure, and I think they do too. Interestingly, we're partnered with Workday on several projects with customers. We represent taking care of the legacy systems for several years while some of the customers are preparing to implement Workday.

The SaaS thing has its place and, yes, there are many options. But when we walk into a company, all we're talking about is how much money we're going to take off the budget. Nobody's actually has to go get budget approval. So it's a whole different process than if you're walking in with Workday, where you have to explain to everybody why the system you are using is no longer as good as what you are going to get. And there's the entire conversion process—the cost of the process, the cost of the software, the risk of the changeover—all those things have to come together. And then you've got to prove it's really in the best interest of the company and this is the right time to do it.

If you look at the number of PeopleSoft customers that have made the conversion to Workday you'll see that it's one thing to love Dave Duffield, and I love him dearly, but it's another thing to say, "Dave you just sold me a system for 100 million bucks four years ago, and I love you, but I can't throw it out and replace it just because you're on to a new project." It just doesn't work that way. [Editor's note: See "Can Two Legacy ERP Guys Get IT Executives to Buy into On-Demand Applications?" for an interview with Duffield and his Workday cofounder.]

CIO: From a big picture view, do you think there is a fundamental change happening now in how companies purchase, integrate, maintain and support enterprise software?

Ravin: I think we are at a big change. What you're seeing now is the evolution of where customers are taking control of software as part of their asset pool and making decisions about how long they're going to run it, where they're going to run it, and they're doing it on their company time scale versus when the software vendor has, for years, attempted to dictate.

I always go back to that wonderful Jiffy Lube example. For years, you had to change your car's oil every 7,000 miles. Jiffy Lube comes along and says, "Let's double the number of appointments by just telling everybody it's 3,000 miles. Let's create a false expiration date for your car's oil." And they convinced everyone that it's 3,000 miles. It has nothing to do with the true engine life of the engine oil. That's great marketing!

In the software world, [the vendors] always have to move your company forward to the new release, so they sell upgrades and consulting. And the only two areas they make money in are consulting and maintenance. But you're seeing companies saying now: "You're not going to dictate to me that I'm going to have to give up my software every three to four years because you say I have to when it's still a performing asset for the company. We'll trade our car fleet when we feel it's the right time. And we'll trade our software when we feel it's the right time."

This is reflected in the companies like Oracle and SAP, as they keep extending out their support periods on the software products. When I ran support policy for PeopleSoft, it was 18 months back in the late 1990s for a major release. So every 18 months you needed to move forward because the software was immature.

Now, Oracle will take you out five to seven years. So while Oracle is now giving you these longer periods of support, they're charging you a fortune for those years, when, in fact, you use less support.

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So you get less support over time for more money, whereas in our world, we cut that cost because you're on a more mature platform.

What's happening here is that customers are really taking control of their system, and they're not allowing the vendors to dictate the terms anymore. And that's a huge revelation.

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